
SENATE BILL 5118

State of Washington

68th Legislature

2023 Regular Session

By Senators Kuderer and Wellman

Prefiled 12/30/22.

1 AN ACT Relating to modifying the multifamily property tax
2 exemption to promote development of long-term affordable housing; and
3 amending RCW 84.14.010, 84.14.020, and 84.14.021.

4 BE IT ENACTED BY THE LEGISLATURE OF THE STATE OF WASHINGTON:

5 **Sec. 1.** RCW 84.14.010 and 2021 c 187 s 2 are each amended to
6 read as follows:

7 The definitions in this section apply throughout this chapter
8 unless the context clearly requires otherwise.

9 (1) "Affordable housing" means residential housing that is rented
10 by a person or household whose monthly housing costs, including
11 utilities other than telephone, do not exceed thirty percent of the
12 household's monthly income. For the purposes of housing intended for
13 owner occupancy, "affordable housing" means residential housing that
14 is within the means of low or moderate-income households.

15 (2) "Campus facilities master plan" means the area that is
16 defined by the University of Washington as necessary for the future
17 growth and development of its campus facilities for campuses
18 authorized under RCW 28B.45.020.

19 (3) "City" means either (a) a city or town with a population of
20 at least fifteen thousand, (b) the largest city or town, if there is
21 no city or town with a population of at least fifteen thousand,

1 located in a county planning under the growth management act, (c) a
2 city or town with a population of at least five thousand located in a
3 county subject to the provisions of RCW 36.70A.215, or (d) any city
4 that otherwise does not meet the qualifications under (a) through (c)
5 of this subsection, until December 31, 2031, that complies with RCW
6 84.14.020(1)(a)(iii) or 84.14.021(1)(b).

7 (4) "Conversion" means either the conversion of an existing
8 residential building or the conversion of a nonresidential building
9 to multiple-unit housing under this chapter.

10 (5) "County" means a county with an unincorporated population of
11 at least 170,000.

12 (~~(5)~~) (6) "Governing authority" means the local legislative
13 authority of a city or a county having jurisdiction over the property
14 for which an exemption may be applied for under this chapter.

15 (~~(6)~~) (7) "Growth management act" means chapter 36.70A RCW.

16 (~~(7)~~) (8) "Household" means a single person, family, or
17 unrelated persons living together.

18 (~~(8)~~) (9) "Low-income household" means a single person, family,
19 or unrelated persons living together whose adjusted income is at or
20 below eighty percent of the median family income adjusted for family
21 size, for the county, city, or metropolitan statistical area, where
22 the project is located, as reported by the United States department
23 of housing and urban development.

24 (~~(9)~~) (10) "Moderate-income household" means a single person,
25 family, or unrelated persons living together whose adjusted income is
26 more than eighty percent but is at or below one hundred fifteen
27 percent of the median family income adjusted for family size, for the
28 county, city, or metropolitan statistical area, where the project is
29 located, as reported by the United States department of housing and
30 urban development.

31 (~~(10)~~) (11) "Multiple-unit housing" means a building or a group
32 of buildings having four or more dwelling units not designed or used
33 as transient accommodations and not including hotels and motels.
34 Multifamily units may result from new construction or rehabilitated
35 or conversion of vacant, underutilized, or substandard residential or
36 nonresidential buildings to multifamily housing.

37 (~~(11)~~) (12) "Owner" means the property owner of record.

38 (~~(12)~~) (13) "Permanent residential occupancy" means multiunit
39 housing that provides either rental or owner occupancy on a
40 nontransient basis. This includes owner-occupied or rental

1 accommodation that is leased for a period of at least one month. This
2 excludes hotels and motels that predominately offer rental
3 accommodation on a daily or weekly basis.

4 ~~((13))~~ (14) "Rehabilitation improvements" means modifications
5 to existing residential or nonresidential structures, that are vacant
6 or underutilized for twelve months or longer, that are made to
7 achieve a condition of substantial compliance with existing building
8 codes or modification to existing occupied structures which increase
9 the number of multifamily housing units.

10 ~~((14))~~ (15) "Residential targeted area" means an area within an
11 urban center or urban growth area that has been designated by the
12 governing authority as a residential targeted area in accordance with
13 this chapter. With respect to designations after July 1, 2007,
14 "residential targeted area" may not include a campus facilities
15 master plan.

16 ~~((15))~~ (16) "Rural county" means a county with a population
17 between fifty thousand and seventy-one thousand and bordering Puget
18 Sound.

19 ~~((16))~~ (17) "Substantial compliance" means compliance with
20 local building or housing code requirements that are typically
21 required for rehabilitation as opposed to new construction.

22 ~~((17))~~ (18) "Urban center" means a compact identifiable
23 district where urban residents may obtain a variety of products and
24 services. An urban center must contain:

25 (a) Several existing or previous, or both, business
26 establishments that may include but are not limited to shops,
27 offices, banks, restaurants, governmental agencies;

28 (b) Adequate public facilities including streets, sidewalks,
29 lighting, transit, domestic water, and sanitary sewer systems; and

30 (c) A mixture of uses and activities that may include housing,
31 recreation, and cultural activities in association with either
32 commercial or office, or both, use.

33 **Sec. 2.** RCW 84.14.020 and 2021 c 187 s 3 are each amended to
34 read as follows:

35 (1)(a) The value of new housing construction, conversion, and
36 rehabilitation improvements qualifying under this chapter is exempt
37 from ad valorem property taxation, as follows:

38 (i) For properties for which applications for certificates of tax
39 exemption eligibility are submitted under this chapter before July

1 22, 2007, the value is exempt for (~~ten~~) 10 successive years
2 beginning January 1 of the year immediately following the calendar
3 year of issuance of the certificate;

4 (ii) For properties for which applications for certificates of
5 tax exemption eligibility are submitted under this chapter on or
6 after July 22, 2007, the value is exempt:

7 (A) For eight successive years beginning January 1st of the year
8 immediately following the calendar year of issuance of the
9 certificate;

10 (B) For (~~twelve~~) 99 successive years beginning January 1st of
11 the year immediately following the calendar year of issuance of the
12 certificate, if the property otherwise qualifies for the exemption
13 under this chapter and meets the conditions in this subsection
14 (1)(a)(ii)(B). For the property to qualify for the (~~twelve~~) 99-year
15 exemption under this subsection, the applicant must commit to renting
16 or selling at least (~~twenty~~) 35 percent of the multifamily housing
17 (~~units~~) square footage as affordable housing (~~units~~) to low and
18 moderate-income households, and the property must satisfy that
19 commitment and any additional affordability and income eligibility
20 conditions adopted by the local government under this chapter. In the
21 case of projects intended exclusively for owner occupancy, the
22 minimum requirement of this subsection (1)(a)(ii)(B) may be satisfied
23 solely through housing affordable to moderate-income households; or

24 (C) For 20 successive years beginning January 1st of the year
25 immediately following the calendar year of issuance of the
26 certificate, if the property otherwise qualifies for the exemption
27 under this chapter and meets the conditions in this subsection
28 (1)(a)(ii)(C). For the property to qualify for the 20-year exemption
29 under this subsection, the project must be located within one mile of
30 high capacity transit of at least 15 minute scheduled frequency, in a
31 city that has implemented, as of July 25, 2021, a mandatory
32 inclusionary zoning requirement for affordable housing that ensures
33 affordability of housing units for a period of at least 99 years and
34 that has a population of no more than 65,000 as measured on July 25,
35 2021. To qualify for the exemption provided in this subsection
36 (1)(a)(ii)(C), the applicant must commit to renting at least 20
37 percent of the dwelling units as affordable to low-income households
38 for a term of at least 99 years, and the property must satisfy that
39 commitment and all required affordability and income eligibility
40 conditions adopted by the local government under this chapter. A city

1 must require the applicant to record a covenant or deed restriction
2 that ensures the continuing rental of units subject to these
3 affordability requirements consistent with the conditions in this
4 subsection (1)(a)(ii)(C) for a period of no less than 99 years. The
5 covenant or deed restriction must also address criteria and policies
6 to maintain public benefit if the property is converted to a use
7 other than which continues to provide for permanently affordable low-
8 income housing consistent with this subsection (1)(a)(ii)(C); and

9 (iii) Until December 31, 2026, for a city as defined in RCW
10 84.14.010(3)(d), for ~~((12))~~ 99 successive years beginning January 1st
11 of the year immediately following the calendar year of issuance of
12 the certificate, if the property otherwise qualifies for the
13 exemption under this chapter and meets the conditions in this
14 subsection (1)(a)(iii). For the property to qualify for the ~~((12))~~
15 99-year exemption under this subsection, the applicant must commit to
16 renting or selling at least ~~((20))~~ 35 percent of the multifamily
17 housing ~~((units))~~ square footage as affordable housing ~~((units))~~
18 to low and moderate-income households, the property must satisfy that
19 commitment and any additional affordability and income eligibility
20 conditions adopted by the local government under this chapter, and
21 the area must be zoned to have an average minimum density equivalent
22 to 15 dwelling units or more per gross acre, or for cities with a
23 population over 20,000, the area must be zoned to have an average
24 minimum density equivalent to 25 dwelling units or more per gross
25 acre. In the case of projects intended exclusively for owner
26 occupancy, the minimum requirement of this subsection (1)(a)(iii) may
27 be satisfied solely through housing affordable to low-income or
28 moderate-income households.

29 (b) (i) The exemptions provided in (a)(i) ~~((through—(iii)))~~ and
30 (a)(ii)(A) of this subsection do not include the value of land or
31 nonhousing-related improvements not qualifying under this chapter.

32 ~~((c) For properties receiving an exemption as provided in~~
33 ~~(a)(ii)(B) of this subsection that are in compliance with existing~~
34 ~~contracts and where the certificate of tax exemption is set to expire~~
35 ~~after June 11, 2020, but before December 31, 2021, the exemption is~~
36 ~~extended until December 31, 2021, provided that the property must~~
37 ~~satisfy any eligibility criteria or limitations provided in this~~
38 ~~chapter as a condition to the existing exemption for a given property~~
39 ~~continue to be met. For all properties eligible to receive an~~
40 ~~extension pursuant to this subsection (1)(c), the city or county that~~

1 ~~issued the initial certificate of tax exemption, as required in RCW~~
2 ~~84.14.090, must notify the county assessor and the applicant of the~~
3 ~~extension of the certificate of tax exemption.))~~

4 (ii) The exemptions provided in (a)(ii)(B) and (C) of this
5 subsection include the value of the new affordable housing
6 constructed and that portion of the land value determined by
7 multiplying the land value by the percentage of square footage of
8 affordable housing constructed in comparison to the total square
9 footage of housing for a qualifying project. The exemptions do not
10 include the value of nonhousing-related improvements not qualifying
11 under this chapter.

12 (2) When a local government adopts guidelines pursuant to RCW
13 84.14.030(2) and includes conditions that must be satisfied with
14 respect to individual dwelling units, rather than with respect to the
15 multiple-unit housing as a whole or some minimum portion thereof, the
16 exemption may, at the local government's discretion, be limited to
17 the value of the qualifying improvements allocable to those dwelling
18 units that meet the local guidelines.

19 (3) In the case of rehabilitation of existing buildings or
20 conversion of nonresidential buildings to multiple-unit housing, the
21 exemption does not include the value of improvements constructed
22 prior to the submission of the application required under this
23 chapter unless such improvements are integral to the use of the
24 building for multiple-unit housing purposes. The incentive provided
25 by this chapter is in addition to any other incentives, tax credits,
26 grants, or other incentives provided by law.

27 (4) This chapter does not apply to increases in assessed
28 valuation made by the assessor on nonqualifying portions of building
29 and value of land nor to increases made by lawful order of a county
30 board of equalization, the department of revenue, or a county, to a
31 class of property throughout the county or specific area of the
32 county to achieve the uniformity of assessment or appraisal required
33 by law.

34 (5) At the conclusion of the exemption period, the value of the
35 exempt land and new housing construction, conversion, or
36 rehabilitation improvements must be considered as new construction
37 for the purposes of chapters 84.55 and 36.21 RCW as though the
38 property was not exempt under this chapter.

39 (6) For properties that qualified for, satisfied the conditions
40 of, and utilized the exemption under subsection (1)(a)(ii)(A) or (B)

1 of this section, following the initial exemption period (~~or the~~
2 ~~extension period authorized in subsection (1)(c) of this section~~),
3 the exemption period may be extended for an additional ((12)) 99
4 years for projects that are within 18 months of expiration contingent
5 on city or county approval. For the property to qualify for an
6 extension under this subsection (6), the applicant must meet at a
7 minimum the locally adopted requirements for the property to qualify
8 for an exemption under subsection (1)(a)(ii)(B) of this section as
9 applicable at the time of the extension application, and the
10 applicant commits to renting or selling at least ((20)) 35 percent of
11 the multifamily housing ((units)) square footage as affordable
12 housing ((units)) for low-income households.

13 (7) At the end of both the tenth and eleventh years of an
14 extension, for ((twelve)) 12-year extensions of the exemption,
15 applicants must provide tenants of rent-restricted units with
16 notification of intent to provide the tenant with rental relocation
17 assistance as provided in subsection (8) of this section.

18 (8)(a) Except as provided in (b) of this subsection, for any 12-
19 year exemption authorized under subsection (1)(a)(ii)(B) or (iii) of
20 this section after July 25, 2021, or for any 12-year exemption
21 extension authorized under subsection (6) of this section, at the
22 expiration of the exemption the applicant must provide tenant
23 relocation assistance in an amount equal to one month's rent to a
24 qualified tenant within the final month of the qualified tenant's
25 lease. To be eligible for tenant relocation assistance under this
26 subsection, the tenant must occupy an income-restricted unit at the
27 time the exemption expires and must qualify as a low-income household
28 under this chapter at the time relocation assistance is sought.

29 (b) If affordability requirements consistent, at a minimum, with
30 those required under subsection (1)(a)(ii)(B) or (iii) of this
31 section remain in place for the unit after the expiration of the
32 exemption, relocation assistance in an amount equal to one month's
33 rent must be provided to a qualified tenant within the final month of
34 a qualified tenant's lease who occupies an income-restricted unit at
35 the time those additional affordability requirements cease to apply
36 to the unit.

37 (9) No new exemptions may be provided under this section
38 beginning on or after January 1, 2032. No extensions may be granted
39 under subsection (6) of this section on or after January 1, 2046.

1 **Sec. 3.** RCW 84.14.021 and 2021 c 187 s 7 are each amended to
2 read as follows:

3 (1)(a) The value of new housing construction, conversion, and
4 rehabilitation improvements qualifying under this chapter is exempt
5 from ad valorem property taxation, as follows: For 20 successive
6 years beginning January 1st of the year immediately following the
7 calendar year of issuance of the certificate, if the property
8 otherwise qualifies for the exemption under this chapter and meets
9 the conditions in this section. For the property to qualify for the
10 20-year exemption under this section, at least 25 percent of the
11 units must be built by or sold to a qualified nonprofit or local
12 government that will assure permanent affordable homeownership. The
13 remaining 75 percent of units may be rented or sold at market rates.

14 (b) Until December 31, 2031, for a city as defined in RCW
15 84.14.010(3)(d), in any city the value of new housing construction,
16 conversion, and rehabilitation improvements qualifying under this
17 chapter is exempt from ad valorem property taxation, as follows: For
18 20 successive years beginning January 1st of the year immediately
19 following the calendar year of issuance of the certificate, if the
20 property otherwise qualifies for the exemption under this chapter and
21 meets the conditions in this section. For the property to qualify for
22 the 20-year exemption under this section, at least 25 percent of the
23 units must be sold to a qualified nonprofit or local government
24 partner that will assure permanent affordable homeownership. The
25 remaining 75 percent of units may be rented or sold at market rates.
26 The area must be zoned to have an average minimum density equivalent
27 to 15 dwelling units or more per gross acre, or for cities with a
28 population over 20,000, the area must be zoned to have an average
29 minimum density equivalent to 25 dwelling units or more per gross
30 acre.

31 (2) Permanently affordable homeownership units or permanently
32 affordable rental units must be sold or rented to households earning
33 no more than 80 percent of the average median income for the city or
34 local jurisdiction in which the unit is located.

35 (3) A local jurisdiction may assign and collect an administration
36 fee at each point of sale to cover the administrative costs for
37 oversight of the program to maintain permanently affordable housing
38 units consistent with this section.

39 (4) The exemptions in this section do not include the value of
40 (~~land or~~) nonhousing-related improvements not qualifying under this

1 chapter. The exemptions in this section include the value of the new
2 affordable housing constructed and that portion of the land value
3 determined by multiplying the overall land value by the percentage of
4 square footage of affordable housing constructed in comparison to the
5 total square footage of housing for a qualifying project.

6 (5) At the conclusion of the exemption period, the value of the
7 new housing construction, conversion, or rehabilitation improvements
8 must be considered as new construction for the purposes of chapters
9 84.55 and 36.21 RCW as though the property was not exempt under this
10 chapter.

11 (6) For purposes of this section, "permanently affordable
12 homeownership" means homeownership that, in addition to meeting the
13 definition of "affordable housing" in RCW 43.185A.010, is:

14 (a) Sponsored by a nonprofit organization or governmental entity;

15 (b) Subject to a ground lease or deed restriction that includes:

16 (i) A resale restriction designed to provide affordability for
17 future low and moderate-income homebuyers;

18 (ii) A right of first refusal for the sponsor organization to
19 purchase the home at resale; and

20 (iii) A requirement that the sponsor must approve any
21 refinancing, including home equity lines of credit; and

22 (c) Sponsored by a nonprofit organization or governmental entity
23 and the sponsor organization:

24 (i) Executes a new ground lease or deed restriction with a
25 duration of at least 99 years at the initial sale and with each
26 successive sale; and

27 (ii) Supports homeowners and enforces the ground lease or deed
28 restriction.

29 (7) The department of commerce must develop a template for
30 permanent affordability for home or condo ownership through deed
31 restrictions that can be used by a city or local government to ensure
32 compliance with this section.

33 (8) No new exemptions may be provided under this section
34 beginning on or after January 1, 2032.

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